

*Independent Auditor's Report*

***Rural Water, Sewer, Gas and Solid Waste  
Management District No. 7, Grady County***

*May 31, 2013*

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 7, GRADY COUNTY, OKLAHOMA  
May 31, 2013**

**Table of Contents**

	<b>Page</b>
Independent Auditor's Report	A – 1

**Basic Financial Statements**

Statement of Net Position – Modified Cash Basis – Enterprise Fund	B – 1
Statement of Revenues, Expenses, and Changes in Net Position – Modified Cash Basis - Enterprise Fund	B – 2
Statement of Cash Flows – Modified Cash Basis – Enterprise Fund	B – 3
Notes to Financial Statements	C – 1

**Internal Control and Compliance Report**

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	D – 1
Schedule of Findings and Responses	E – 1
Disposition of Prior Year Audit Findings	F – 1

**Supplemental Information**

Comparative Statement of Net Position – Modified Cash Basis – Enterprise Fund	G - 1
Comparative Statement of Revenues, Expenses, and Changes in Net Position - Modified Cash Basis – Enterprise Fund	G – 2

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Rural Water, Sewer, Gas and Solid Waste Management  
District No. 7, Grady County  
Ninnekah, Oklahoma 73067

Board Members:

We have audited the accompanying modified cash basis financial statements of the business-type activities of the **Rural Water, Sewer, Gas and Solid Waste Management District No. 7**, Grady County, Oklahoma, as of and for the year ended May 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the business-type activities of the District as of May 31, 2013, and the respective changes in financial position-modified cash basis and cash flows, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

### **Report on Supplementary Information**

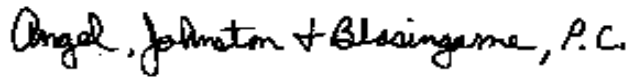
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying comparative statement of net position – modified cash basis and comparative statement of revenues, expenses, and changes in net position – modified cash basis (pages F-1 and F-2) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The comparative statement of net position – modified cash basis and comparative statement of revenues, expenses, and changes in net position – modified cash basis are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, the comparative statement of net position – modified cash basis and comparative statement of revenues, expenses, and changes in net position – modified cash basis are fairly stated, in all material respects, in relation to the basic financial statements as a whole on the basis of accounting described in Note 1.

## **Basis of Accounting**

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

A handwritten signature in black ink that reads "Angel, Johnston & Blasingame, P.C.".

Angel, Johnston & Blasingame, P.C.  
Certified Public Accountants

Chickasha, Oklahoma  
July 3, 2013

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 7, GRADY COUNTY, OKLAHOMA  
Statement of Net Position - Modified Cash Basis  
For the Year Ended May 31, 2013**

<u><b>ASSETS</b></u>	<u><b>May 31, 2013</b></u>
<b>Current Assets</b>	
<i>Cash and Cash Equivalents</i>	
Cash on Hand	\$ 71
Checking Account	118,007
Savings Account	5,250
Debt Service Fund - Restricted	11,824
Reserve Fund - Restricted	80,541
<i>Total Cash and Cash Equivalents</i>	<u>215,693</u>
 <i>Total Current Assets</i>	 215,693
<b>Non Current Assets</b>	
Capital Assets - Net of Accumulated Depreciation	<u>2,543,160</u>
<i>Total Non Current Assets</i>	2,543,160
 <i>Total Assets</i>	 <u>2,758,853</u>
 <b><u>LIABILITIES</u></b>	
<b>Current Liabilities</b>	
Operating Note Payable - FNB	120
Current Portion Long Term Debt	<u>58,600</u>
<i>Total Current Liabilities</i>	58,720
<b>Non Current Liabilities</b>	
Note Payable - OWRB (net of current portion)	<u>345,900</u>
<i>Total Liabilities</i>	404,620
 <b><u>NET POSITION</u></b>	
Net Investment in Capital Assets	2,138,541
Restricted for Debt Service	92,365
Unrestricted	123,327
<i>Total Net Position</i>	<u><u>\$ 2,354,233</u></u>

*The accompanying notes are an integral part of the financial statements.*

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 7, GRADY COUNTY, OKLAHOMA  
Statement of Revenues, Expenses, and Changes in Net Position  
Modified Cash Basis  
For the Year Ended May 31, 2013**

	<u><b>May 31, 2013</b></u>
<b>Operating Revenue</b>	
Water Sales	\$ 566,981
Sewer Sales	10,322
Late Charges	10,509
Unit Fees & Assessments	52,076
Miscellaneous	19,342
Rental	4,334
<i>Total Operating Revenue</i>	<u>663,564</u>
 <b>Operating Expenses</b>	
Salaries & Benefits	138,404
Maintenance & Operations	113,430
Office Expense	19,404
Water Wells Expense	113,527
Insurance & Professional Expense	39,394
Returned Checks	737
<i>Total Operating Expenses</i>	<u>424,896</u>
 <i>Operating Income before Depreciation</i>	238,668
 Depreciation Expense	95,150
<i>Operating Income (Loss)</i>	<u>143,518</u>
 <b>Non Operating Revenues (Expense)</b>	
Interest Earned-net of fees	37
FEMA Grant	5,704
Gain on Sale of Asset(s)	3,700
Interest on Loan	(7,972)
<i>Total Non Operating Revenues (Expenses)</i>	<u>1,469</u>
 <i>Net Income (Loss)</i>	144,987
 <i>Net Position - Beginning of Year</i>	2,209,246
<i>Net Position - End of Year</i>	<u><u>\$ 2,354,233</u></u>

*The accompanying notes are an integral part of the financial statements.*

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 7, GRADY COUNTY, OKLAHOMA  
Statement of Cash Flows - Modified Cash Basis  
For the Year Ended May 31, 2013**

	<u><b>May 31, 2013</b></u>
<b>Cash flows from operating activities</b>	
Cash received from customers	\$ 663,564
Cash paid to employees	(138,404)
Cash paid to suppliers	(286,492)
<i>Net cash provided (used) by operating activities</i>	<u>238,668</u>
<b>Cash flows from capital and related financing activities</b>	
Proceeds from operating note	100
Grant Contributions	5,704
Interest Expense	(7,972)
Purchase of capital assets	(55,971)
Sale of capital assets	5,250
Principal paid on capital debt	(105,579)
<i>Net cash provided (used) for capital and related financing activities</i>	<u>(158,468)</u>
<b>Cash flows from investing activities</b>	
Interest Income-net of fees	37
<i>Net cash provided (used) by investing activities</i>	<u>37</u>
<i>Net increase (decrease) in cash and cash equivalents</i>	80,237
<i>Cash and cash equivalents at beginning of year</i>	135,456
<i>Cash and cash equivalents at end of year</i>	<u>\$ 215,693</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>	
Operating income (loss)	\$ 143,518
Adjustment to reconcile operating income to net cash provided	-
Depreciation expenses	95,150
<i>Net cash provided (used) by operating activities</i>	<u>\$ 238,668</u>

*The accompanying notes are an integral part of the financial statements.*



**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT**  
**DISTRICT NO.7, GRADY COUNTY, OKLAHOMA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
May 31, 2013

**Note 1 – Summary of Significant Accounting Policies**

As discussed further in Note 1.C., these financial statements are presented on the modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent with they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this note.

**1 A. The Reporting Entity**

Grady County Rural Water, Sewer, Gas and Solid Waste Management District No. 7 (The District) was created in 1992 as a quasi-governmental unit under Oklahoma State Statue O.S. 82. The District is a body politic and corporate and an agency and legally constituted authority of the State of Oklahoma for the purpose of developing and providing an adequate rural water supply. Prior to 1992, it was accounted for as a non-profit corporation under Section 501(c)(3) of the Internal Revenue Code. The District provides water and limited sewer services to patrons within its district boundaries. A 5-person board duly elected by its members governs the District.

The District is under limited supervisory control of the Grady County Commissioners. After considering the lack of financial interdependency and the lack of exertion of significant influence over the District's operational matters, it was determined that the District is not a component unit of the Grady County governmental unit.

**1 B. Basis of Presentation**

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position display information about the reporting government as a whole. These statements generally distinguish between governmental and business-type activities. However, all the activities of the District are business-type activities. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT**  
**DISTRICT NO.7, GRADY COUNTY, OKLAHOMA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
May 31, 2013

**Note 1 – Summary of Significant Accounting Policies, (continued)**

**1 B. Basis of Presentation (continued)**

Fund Financial Statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts, which are comprised of each fund's assets, liabilities, net position, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements. The funds of the financial reporting entity are described below:

**Proprietary Fund Types**

- 1. Enterprise Fund** – These funds are established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. There is one fund within this fund type.

**1 C. Basis of Accounting and Measurement Focus**

Measurement focus refers to how transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

In the financial statement, the business-type activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as defined below:

- a. The business-type activity utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent, financial or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net position.
- b. The financial statements in business-type activities are presented using a modified cash basis of accounting. This basis generally recognizes assets, liabilities, net position, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT**  
**DISTRICT NO.7, GRADY COUNTY, OKLAHOMA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
May 31, 2013

**Note 1 – Summary of Significant Accounting Policies, (continued)**

**1 C. Basis of Accounting and Measurement Focus (continued)**

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities except as noted above) are not recorded in these financial statements.

If the District utilized the basis of accounting recognized as generally accepted, the financial statements would use the accrual basis of accounting.

**1 D. Assets, Liabilities and Equity**

Cash & Cash Equivalents - For the purposes of the statement of cash flows, the District considers all cash on hand, demand deposits, interest bearing checking accounts, time deposit accounts and highly liquid investments, with an original maturity of three months or less when purchased, to be cash and cash equivalents.

Restricted Assets – Restricted assets include assets that are legally restricted as to their use. The primary restricted assets are related to debt service.

Capital Assets - The cost of capital assets has been accumulated from audit reports since the inception. The assets are recorded at cost and are depreciated over the estimated useful lives using the straight-line depreciation method. The District policy is to capitalize assets of \$1,000 or more. The range of estimated useful lives by type of asset is as follows:

Building and Water System	40 years
Office Equipment	5 years
Other Equipment and Vehicles	5 to 15 years

Equity Classifications – In the proprietary fund financial statements, equity is classified as net position and displayed in three components:

- a. *Net Investment in capital assets* – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributed to the acquisition, construction, or improvements of those assets.

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT**  
**DISTRICT NO.7, GRADY COUNTY, OKLAHOMA**  
NOTES TO THE FINANCIAL STATEMENTS  
May 31, 2013

**Note 1 – Summary of Significant Accounting Policies, (continued)**

**1 D. Assets, Liabilities and Equity, (continued)**

- b. *Restricted net position* – Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. *Unrestricted net position* – All other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

It is the District’s policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Operating and Non-Operating Revenues – Operating revenues are considered those whose cash flows are related to operating activities, while revenue related to financing, capital and investing activities are reported as non-operating.

Expenditures/Expenses – Expenditures/expenses are reported by object or activity.

**1 E. Use of Estimates**

Certain estimates are made in the preparation of the financial statements, such as estimated lives for capital assets depreciation. Estimates are based on management’s best judgments and may vary from actual results.

**Note 2 – Detailed Notes on Transaction Classes/Accounts**

**2 A. Deposits, Investments, and Collateral**

*Deposits and Investments* - The District’s investment policy is governed by the board of trustees and any restrictions in the trust indenture.

*Custodial Credit Risk - Deposits* – Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District does not have a written deposit policy for custodial credit risk, but *Oklahoma Statutes* requires collateral for all uninsured deposits of public trust funds in financial institutions. As of May 31, 2013, the District’s bank balances of \$123,256 were not exposed to custodial credit risk. The funds held by the bank’s trust department are invested in U.S. Government obligations and total \$92,365.

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT**  
**DISTRICT NO.7, GRADY COUNTY, OKLAHOMA**  
NOTES TO THE FINANCIAL STATEMENTS  
May 31, 2013

**Note 2 – Detailed Notes on Transaction Classes/Accounts, (continued)**

**2 B. Restricted Assets**

The amounts reported as restricted assets on the Statement of Net Position are comprised of cash and investments held for debt service. The restricted assets as of May 31, 2013 were as follows:

<u>Type of Restricted Assets</u>	Current Cash and Cash <u>Equivalents</u>	Current <u>Investments</u>	<u>Total</u>
Restricted for Debt Service	\$ 0	\$ 92,365	\$ 92,365

**2 C. Capital Assets Activity**

The following is a summary of capital assets and accumulated depreciation:

	<u>Balance 5/31/12</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 5/31/13</u>
<b>Business Type Activities:</b>				
Non-depreciable assets:				
Land	\$ 222,857	\$ -	\$ -	\$ 222,857
Construction in progress	<u>93,200</u>	<u>2,697</u>	<u>-</u>	<u>95,897</u>
Total non-depreciable assets	<u>316,057</u>	<u>2,697</u>	<u>-</u>	<u>318,754</u>
Depreciable assets:				
Buildings	191,540	-	-	191,540
Vehicles	66,660	26,876	22,326	71,210
Office & Other Equipment	32,754	-	-	32,754
Water Lines/Improvements	<u>3,652,093</u>	<u>26,399</u>	<u>-</u>	<u>3,678,492</u>
Total depreciable assets	<u>3,943,047</u>	<u>53,275</u>	<u>22,326</u>	<u>3,973,996</u>
Less accumulated depreciation:				
Buildings	21,520	4,763	-	26,283
Vehicles	44,800	8,949	20,776	32,973
Office & Other Equipment	31,504	220	-	31,724
Water Lines/Improvements	<u>1,577,388</u>	<u>81,217</u>	<u>-</u>	<u>1,658,605</u>
Total accumulated depreciation	<u>1,675,212</u>	<u>95,149</u>	<u>20,776</u>	<u>1,749,585</u>
Net depreciable assets	<u>2,267,835</u>	<u>(41,874)</u>	<u>(1,550)</u>	<u>2,224,411</u>
Net business type activities capital assets	<u>\$2,583,892</u>	<u>\$ (39,177)</u>	<u>\$ (1,550)</u>	<u>\$ 2,543,165</u>

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT  
DISTRICT NO.7, GRADY COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
May 31, 2013**

**Note 2 – Detailed Notes on Transaction Classes/Accounts, (continued)**

**2 C. Capital Assets Activity, (continued)**

Depreciation expense for the year was \$95,150 and was all charged to the enterprise fund.

**2 D. Long-Term Debt**

On May 27, 2004 the District entered into a loan with the Oklahoma Water Resources Board (OWRB) in the amount of \$805,000 for a period of approximately 15 years bearing an initial interest rate of 1.780 percent per annum. The interest rate is variable. The current variable rate is 1.23 percent per annum, with a recalculation quarterly. The estimated future interest as listed in the table below is calculated using an average interest rate of 4.3 percent per annum. The District's water revenue and the assets of the District back the loan.

The changes in long-term debt are as follows:

	<u>Balance 5-31-12</u>	<u>Loan Proceeds</u>	<u>Interest Paid</u>	<u>Principal Paid</u>	<u>Balance 5-31-13</u>
OWRB	460,000	0	5,352	55,500	404,500

<u>Fiscal Year</u>	<u>OWRB Principal Payments</u>	<u>Estimated Interest</u>
2013-2014	58,600	17,552
2014-2015	61,900	14,789
2015-2016	65,300	12,055
2016-2017	69,000	9,076
2017-2018	72,800	5,929
2018-2019	76,900	2,608

**2 E. Operating Debt/Line of Credit**

On April 19, 2012 the District entered into a loan agreement with the First National Bank & Trust Company (FNB) providing for a line of credit in the amount of \$100,100.00 for a period of one year bearing an initial interest rate of 5.50 percent per annum. As of May 31, 2013 the District has utilized \$120 of these funds. The interest rate is variable. The current variable rate is 5.50 percent per annum. The estimated future interest as listed in the table below is calculated using an average interest rate of 5.50 percent per annum. The District's water revenue and the assets of the District back the loan.

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT  
DISTRICT NO.7, GRADY COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
May 31, 2013**

**Note 2 – Detailed Notes on Transaction Classes/Accounts, (continued)**

**2 E. Operating Debt/Line of Credit, (continued)**

The changes in operating debt are as follows:

	<u>Balance 5-31-12</u>	<u>Loan Proceeds</u>	<u>Interest Paid</u>	<u>Principal Paid</u>	<u>Balance 5-31-13</u>
FNB	50,100	100	2,619	50,080	120

<u>Fiscal Year</u>	<u>FNB Principal Payments</u>	<u>Estimated Interest</u>
2013-2014	120	7

**Note 3 – Other Notes**

**3 A. Meter Deposits**

Prior to 1980 the District collected refundable meter deposits from the water line users. Since that time it has been policy for new members to pay a non-refundable membership and installation fee. Because the corporation's records disclosing meter deposits have been subsequently destroyed, there is no documentation as to who still has a refundable meter deposit outstanding. The corporation feels this amount is not material and that they would have sufficient funds available to refund any outstanding meter deposits.

**3 B. Vacation, Sick leave and Compensated Absences**

Compensated vacation and sick leave absences are recorded as expenditures when they are paid. Any unused sick leave and/or vacation as of December is paid to the employee the following January at the employees normal rate and thus does not vest or accumulate.

**3 C. Employee Pension Plan**

The retirement program is a 401(k) deferred compensation plan. The District is contributing 8% of the three employees' compensation. Additional voluntary employee contributions are allowed. The plan allows contributions of 15% up to a maximum of \$22,500 per person per year. The contributions are immediately 100% vested.

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT**  
**DISTRICT NO.7, GRADY COUNTY, OKLAHOMA**  
NOTES TO THE FINANCIAL STATEMENTS  
May 31, 2013

**Note 3 – Other Notes, (continued)**

**3 C. Employee Pension Plan, (continued)**

The retirement contributions for the years ending May 31 are as follows:

2013	\$7,493
2012	\$8,733
2011	\$7,480
2010	\$8,730
2009	\$8,049
2008	\$7,493
2007	\$5,887
2006	\$5,712

**3 D. Water Rights Lease**

The District leases water rights from area residents to provide the water service to its customers. The District currently is party to seven separate leases for such water rights:

- 1) Moore lease (\$200/month) – started in 1983 for a 40 year term with renegotiations every three years.
- 2) Bailey lease (\$150/month) – started in 1981 with rights for 40 years but renewable month to month.
- 3) Adams lease (\$600/month) – started in 1981 with no definite term and renewable month to month.
- 4) Dahl lease (\$250/month) – started in 1990 for a 40 year term with renegotiations every three years.
- 5) Teel lease (\$300/month) – started in 1995 for a 40 year term with renegotiations every five years.
- 6) Rust lease (\$400/month) – started in 1998 for a 40 year term with renegotiations every five years.
- 7) Sumner lease (\$300/month) – started in 1999 for a 40 year term with a set payment scheduled for 5 years.

**3 E. Commitments and Contingencies**

*Contingencies – Grant Program Involvement* - In the normal course of operations, the District may participate in various federal and state grant programs from year to year. Amounts received or receivable from grantor agencies are often subject to audit and adjustment by the grantor agency. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of expenditures which may be disallowed by the grantor agency cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Rural Water, Sewer, Gas and Solid Waste Management  
District No. 7, Grady County  
Ninnekah, Oklahoma 73067

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying modified cash basis financial statements of the business-type activities of the Rural Water, Sewer, Gas and Solid Waste Management District No. 7, Grady County, as of and for the year ended May 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated July 3, 2013.

The report was a special report on the District's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Rural Water, Sewer, Gas and Solid Waste Management District No. 7, Grady County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned

functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. 13-01.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. No significant deficiencies were identified.

### **Compliance and Other Matters**

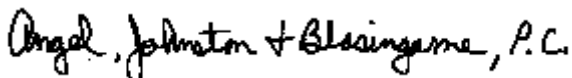
As part of obtaining reasonable assurance about whether Rural Water, Sewer, Gas and Solid Waste Management District No. 7, Grady County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Rural Water District No. 7's Response to Findings**

Rural Water District No. 7's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with the *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Angel, Johnston & Blasingame, P.C.  
Certified Public Accountants

Chickasha, Oklahoma  
July 3, 2013

**Rural Water, Sewer, Gas and Solid Waste Management  
District No. 7, Grady County  
Schedule of Findings and Responses  
For the Year Ended May 31, 2013**

- 13-01 *Criteria* – The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the entity’s assets and ensure accurate financial reporting.

*Condition* – Presently the same individual performs all accounting functions; receives utility service related cash payments and is responsible for service billing and adjustment, also balances the daily cash drawer, posts payments to customer accounts, makes bank deposits, writes checks and reconciles the monthly bank statements and prepares monthly financial summaries.

*Cause* – The entity’s limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

*Effect or Potential Effect* – Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to the accounting functions, including misappropriation of assets, could occur and not be detected within a timely basis.

*Recommendation* – While it may not be cost effective to hire the additional administrative staff that would be necessary in order to adequately segregate the responsibilities, the Board should consider a formal evaluation of their risks associated with this lack of segregation of duties. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties.

*Management response* – Management agrees.

**Rural Water, Sewer, Gas and Solid Waste Management  
District No. 7, Grady County  
Disposition of Prior Year Audit Findings  
For the Year Ended May 31, 2013**

- 12-01 *Finding* – Presently the same individual performs all accounting functions; receives utility service related cash payments and is responsible for service billing and adjustment, also balances the daily cash drawer, posts payments to customer accounts, makes bank deposits, writes checks and reconciles the monthly bank statements and prepares monthly financial summaries. Lack of Segregation of duties

*Recommendation* – While it may not be cost effective to hire the additional administrative staff that would be necessary in order to adequately segregate the responsibilities, the Board should consider a formal evaluation of their risks associated with this lack of segregation of duties. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties.

*Disposition* – This continues to be a finding.

- 12-02 *Finding* – Part-time employees must keep timesheets, however, those reviewed for Janet's relief were not approved by a supervising authority. Daily time sheets should be approved by a supervisor to indicate the timesheets are accurate and true.

*Recommendation* – We recommend that the timesheets should contain detailed start and stop times as well as be signed by both the employee and supervisor.

*Disposition* – This appears to have been corrected and is no longer a finding.

## *Supplemental Information*

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 7, GRADY COUNTY, OKLAHOMA  
Comparative Statement of Net Position - Modified Cash Basis  
For the Years Ended May 31, 2013, 2012 and 2011**

<b><u>ASSETS</u></b>	<b><u>May 31, 2013</u></b>	<b><u>May 31, 2012</u></b>	<b><u>May 31, 2011</u></b>
<b>Current Assets</b>			
<i>Cash and Cash Equivalents</i>			
Cash on Hand	\$ 71	\$ 43	\$ 17
Checking Account	118,007	37,157	137,693
Savings Account	5,250	1,639	12,999
Project Fund	-	5,989	5,987
Debt Service Fund - Restricted	11,824	10,110	9,873
Reserve Fund - Restricted	80,541	80,518	94,508
<i>Total Cash and Cash Equivalents</i>	<u>215,693</u>	<u>135,456</u>	<u>261,077</u>
 <i>Total Current Assets</i>	 215,693	 135,456	 261,077
<b>Non Current Assets</b>			
Capital Assets - Net of Accumulated Depreciation	<u>2,543,160</u>	<u>2,583,890</u>	<u>2,366,347</u>
<i>Total Non Current Assets</i>	<u>2,543,160</u>	<u>2,583,890</u>	<u>2,366,347</u>
 <i>Total Assets</i>	 <u>2,758,853</u>	 <u>2,719,346</u>	 <u>2,627,424</u>
 <b><u>LIABILITIES</u></b>			
<b>Current Liabilities</b>			
Operating Note Payable - FNB	120	50,100	-
Current Portion Long Term Debt	<u>58,600</u>	<u>55,500</u>	<u>52,500</u>
<i>Total Current Liabilities</i>	<u>58,720</u>	<u>105,600</u>	<u>52,500</u>
<b>Non Current Liabilities</b>			
Note Payable - OWRB (net of current portion)	<u>345,900</u>	<u>404,500</u>	<u>460,000</u>
<i>Total Liabilities</i>	<u>404,620</u>	<u>510,100</u>	<u>512,500</u>
 <b><u>NET POSITION</u></b>			
Net Investment in Capital Assets	2,138,541	2,073,790	1,853,847
Restricted for Debt Service	92,365	90,628	110,368
Unrestricted	<u>123,327</u>	<u>44,828</u>	<u>150,709</u>
<i>Total Net Position</i>	<u>\$ 2,354,233</u>	<u>\$ 2,209,246</u>	<u>\$ 2,114,924</u>

*The accompanying notes are an integral part of the financial statements.*

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 7, GRADY COUNTY, OKLAHOMA**  
**Comparative Statement of Revenues, Expenses, and Changes in Net Position**  
**Modified Cash Basis**  
**For the Years Ended May 31, 2013, 2012 and 2011**

	<u>May 31, 2013</u>	<u>May 31, 2012</u>	<u>May 31, 2011</u>
<b>Operating Revenue</b>			
Water Sales	\$ 566,981	\$ 564,511	\$ 529,608
Sewer Sales	10,322	10,366	9,800
Late Charges	10,509	10,569	10,568
Unit Fees & Assessments	52,076	34,622	16,917
Miscellaneous	19,342	27,169	14,481
Rental	4,334	4,537	4,205
<i>Total Operating Revenue</i>	<u>663,564</u>	<u>651,774</u>	<u>585,579</u>
<b>Operating Expenses</b>			
Salaries & Benefits	138,404	145,753	131,298
Maintenance & Operations	113,430	146,774	99,209
Office Expense	19,404	19,871	21,618
Water Wells Expense	113,527	103,004	88,066
Insurance & Professional Expense	39,394	42,156	44,060
Returned Checks	737	1,011	1,086
<i>Total Operating Expenses</i>	<u>424,896</u>	<u>458,569</u>	<u>385,337</u>
<i>Operating Income before Depreciation</i>	238,668	193,205	200,242
Depreciation Expense	95,150	92,112	88,171
<i>Operating Income (Loss)</i>	<u>143,518</u>	<u>101,093</u>	<u>112,071</u>
<b>Non Operating Revenues (Expense)</b>			
Interest Earned-net of fees	37	83	122
Gain on Sale of Asset(s)	3,700	-	-
Interest on Loan	(7,972)	(6,854)	(8,157)
<i>Net Income before Grants &amp; Contributions</i>	<u>139,283</u>	<u>94,322</u>	<u>104,036</u>
Grants	5,704	-	1,601
Contributions	-	-	-
<i>Changes in Net Assets</i>	<u>144,987</u>	<u>94,322</u>	<u>105,637</u>
<i>Net Position - Beginning of Year</i>	2,209,246	2,114,924	2,009,287
<i>Net Position - End of Year</i>	<u>\$ 2,354,233</u>	<u>\$ 2,209,246</u>	<u>\$ 2,114,924</u>

*The accompanying notes are an integral part of the financial statements.*